



Financial Affairs Committee
June 29, 2001

1. Participants

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| --Ron Jacobsma, FWUA | --George Senn, CVPWA |
| --Russell Harrington, WWD | --Alan Thompson, EBMUD |
| --Chase Hurley, Panoche WD | --Larry Bauman, BOR |
| --Lynn Hurley, SCVWD | --Tad Berkebille, SCWA |
| --Mark Oosterman, SMUD | --Brice Bledsoe, CCWD (Call-in) |
| --Anthea Hansen, DWD | --Mike Hagman, TCCA |
| --Kathryn Kitchell, City of Roseville | --Maria Solis, EBMUD |
| --Dennis Michum, GCID | --Greg Ohanesian, SCWA |
| --Tona Mederios, SLDMWA (Call-in) | --Ara Azhederian, SLWD |

2. Opening Business

The June meeting was held in the CVPWA conference room, 1521 I Street, Sacramento. The meeting began at 9:30 a.m. and concluded at 11:30. The agenda was reviewed and approved with the addition of two discussion items—M&I O&M Deficits and Reclamation Law Questions.

The next Financial Affairs Committee meeting will be held on **July 20 at 9:30 a.m. in the ACWA Boardroom, 910 K Street, Sacramento.**

3. **FAC Issues Matrix Development.** Ron briefed the group as to why we are developing an issues matrix and stressed the importance of completing the issue papers associated with the five issues we are working. The issues are:

- Capital & Deficit Rate Methodology
- PUE Issues (current and Post 2004)
- Restoration Fund Capital Cost Crediting
- Water Marketing Rate Review and Analysis
- Reclamation Water Accounting Program

Ron mentioned that the Capital Ratesetting team had pretty much completed its issue paper and that Chase Hurley and Ed Roman had put together a first cut of the PUE Developments issue. The other three issue papers are in various stages of completion.

Interest-Based, Issue-Driven Problem Solving Training. Larry reported that the training will take place at the Granlibakken Resort and Conference Center near Lake Tahoe. To date, 10-11 contractor representatives, 7 Reclamation representatives, and 1 WAPA representative are signed up to participate in the training. BOR is providing 4 instructors to facilitate the training. There is room for perhaps 2 more participants.

Status Report on Key KAC Issues: Ron suggested that before the teams update the group on the status of their issues, we should again identify the FAC participants to make sure we haven't left anyone out or to add others who may have an interest in working one or more of the issues.

--Capital Rate Setting and Cost Recovery. The BOR participants are Larry Bauman (lead), Mike Finnegan and Jesus Reynoso. The contractor participants are Ron Jacobsma (lead), Brice Bledsoe, Russell Harrington, Lynn Hurley, Tona Mederios, Alan Thompson, and George Senn. Larry reported that the team has had a number of working meetings and the next step is now in BOR's hands. BOR is tasked with creating a "what if repayment scenario based on use of the current Irrigation and M&I long-term projected deliveries as shown on Schedule A-12". The sub-team thought that BOR could accomplish this through utilization of a water delivery model built by Lynn Hurley. This model is currently under review by BOR to determine if it will meet all of our requirements. Larry said that competing priorities have resulted in difficulties in finding time for the ratesetting staff to work on this effort (in fact, most of the Ratesetting group will be on leave throughout July. Larry will try to get the process moving again on July 2 as they hope to complete work on the issue in time for inclusion in the 2002 water rates. Larry agreed to update the issue paper.

--PUE Issues. The BOR participants are Martin Bauer (lead), Russell Knight (WAPA), Barry Mortmeyer, and Janice Bartlett. The contractor participants are Chase Hurley (lead) and Ed Roman. Chase reported that the CVPWA sponsored three power workshops in June, one in Los Banos, one in Fresno, and one in Willows to inform interested water contractors and farmers as to what might transpire if PG&E is successful in getting a rate increase under its load balancing contract with Reclamation or is successful in getting out from under the contract prior to its normal expiration at the end of 2004. He reported that each of the workshops was well attended and that follow up sessions are planned when more is known. Chase briefed the group on the status of PG&E's efforts to increase rates or get out from under its load balancing contract with Reclamation through its filing with FERC and PG&E's efforts get out from under the contract through its filing for reorganization under Chapter 11 bankruptcy proceedings. Chase agreed to update the issue paper.

--Restoration Fund Capital Cost Crediting. The BOR participants are Jim Bjornsen (lead), Mike Finnegan, and Ruth Johnson. The contractor participants are Brice Bledsoe (lead), Anthea Hansen, and Chase Hurley. Larry reported that the BOR has had several internal meetings on this issue and has submitted some preliminary data on this issue to Interior's Solicitor for review. BOR will eventually

schedule meetings with the water contractors to outline BOR's final position.

-- **Storage and Water Marketing Costs.** The BOR participants on the issue are Jim Bjornsen (lead) and Jesus Reynoso. The water contractor participants are George Senn (lead), Ron Jacobsma, Russell Harrington, Lynn Hurley, Tona Mederios, and Mike Hagman. Ron reported that George and Jesus have completed their work on the 10-year analysis of projected versus actual water deliveries and projected versus actual costs associated with Storage O&M and Water Marketing and have reached agreement on the validity of the numbers used in the analyses. The team discussed the spreadsheets via conference call on June 27. At that time it was agreed that, due to the complexity of the spreadsheets and the large amount of information contained in them, San Felipe would be excluded from the spreadsheets and reported separately. It was also agreed that the spreadsheets would be simplified so as to avoid confusion. George agreed to rework the spreadsheets to make them easier to follow. George commented that Jim Bjornsen and Jesus Reynoso agreed that the numbers were correct and that Jim had no objection to considering non-permanent contractor revenues when setting annual water rates. He agreed to have his staff look into the source of non-permanent contractor revenues as well as check on the amount of G&A expenses that are included in actual water marketing expenses.

Larry indicated that it could be possible to get changes to either the capital ratesetting methodology or the Storage and Water Marketing costs methodology, as a result of our work, into the 2002, rates provided that they are adopted by October 1 or during the 60-day review period following the October 1 date. George agreed to complete a draft of the issue paper for review by the team.

--**Reclamation Water Accounting Program Development.** The BOR participants are Jim Bjornsen (lead) and Ruth Johnson. The water contractor participants are Ron Jacobsma (lead), Anthea Hansen, Russell Harrington, Lynn Hurley, Tona Mederios, and George Senn. George reported that he attended the monthly JAVIS BOR-WORKS Management Review on June 19 and learned that Build I and Build II are essentially completed and that training is starting for select BOR personnel and a few water contractor representatives. Build III (the web enabled program for use by the water contractor community) development is underway and should be completed by September 30 of this year. Training for water contractor personnel (how to use the web-enabled system) will be made available in the near future. Ron will complete preparation of the issue paper.

4. **Reclamation's Proposed CVP Cost Allocation Methodology.** Larry said that a letter signed by the Regional Director is being sent today to each of the CVP water contractors outlining the BOR's proposed cost allocation methodology. The report was posted on the Internet yesterday and hard copies will be available upon request. Russell Harrington suggested that the FAC explore the concept of allocating greater costs to the environment (non-reimbursable) given recent court decisions.

5. **Reports on Ongoing FAC Interest Issues.**

--**Direct Funding Agreements.** Reclamation is developing a second solicitation for Authority response for a service contract to provide funding for deficient and delinquent contractors as defined in the Transfer Agreement. Reclamation determined that the proposals received from the Authority's were outside the scope of the original solicitation.

--**Arroyo Pasajero.** Nothing new to report.

--**EBMUD Amendatory Contract.** Alan reported on the latest happenings with the EBMUD Amendatory Contract. He said that the contract should be signed by both parties by June 29. Kathy Kitchell asked what impacts this contract would have on other CVP M&I water contractors. Alan said that EBMUD is trying to identify financial arrangements that would ease the impacts on other water contractors. He said it is still a work in progress. Lynn Hurley provided colorful charts and data tables showing the potential impacts the EBMUD amendatory contract could have on selected water contractors under various water delivery scenarios. It was agreed that the Bureau should notify all M&I water contractors of the potential adverse impacts the change in water deliveries under the amendatory contract could have on them. Larry agreed to discuss this with BOR management.

--**M&I Operations Deficits.** Larry reported that notices of final accountings went out last week to all CVP contractors. The final accountings resulted in surpluses and deficits. Tad Berkebile said that the Sacramento County Water Agency received a final accounting notice that indicated the Agency had a \$50,000 deficit. He said the Agency did not have a deficit when it signed on 1½ years ago and he could not understand how the agency could have such a deficit. Without having their data available, Larry explained that the Agency probably did not take the amount of water it had projected for the year and consequently not enough revenues were generated to recover its O&M expenses (including interest on unpaid capital) allocated to the Agency. Larry said that the Agency should get with the Ratesetting staff to update its build-out schedule so that more realistic water usage projections are utilized in the rates.

--**Reclamation Reform Act.** Chase commented that this year the BOR is spending a considerable amount of effort to ensure that all farm operators file RRA farm operator forms. He said members of his district are confused as to what constitutes a farming operation and who should file the forms. He suggested BOR conduct workshops similar to the one held in Reno to assist the farmers in completing the forms.